

**City of Grand Rapids
and County of Kent
Joint Building Authority
(A Joint Venture of the City
of Grand Rapids, Michigan)**

Financial Statements
For the Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CITY OF GRAND RAPIDS- COUNTY OF KENT JOINT BUILDING AUTHORITY		County Kent
Audit Date 6/30/04	Opinion Date 11/4/04	Date Accountant Report Submitted to State: 1/3/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BDO Seidman, LLP			
Street Address 99 Monroe Avenue, NW, Suite 800		City Grand Rapids	State MI
Accountant Signature <i>Chic A. Seidman, CPA</i>		ZIP 49503	Date 1-3-05

**City of Grand Rapids and County of Kent
Joint Building Authority
(A Joint Venture of the City of
Grand Rapids, Michigan)**

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Independent Auditors' Report

Members of the City of Grand Rapids and
County of Kent Joint Building Authority
Grand Rapids, Michigan

We have audited the accompanying financial statements of the City of Grand Rapids and County of Kent Joint Building Authority (the Authority) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Grand Rapids and County of Kent Joint Building Authority at June 30, 2004, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BDO Seidman, LLP

Grand Rapids, Michigan
November 4, 2004

City of Grand Rapids and County of Kent Joint Building Authority (A Joint Venture of the City of Grand Rapids, Michigan)

Management's Discussion and Analysis

As management of the City of Grand Rapids Joint Building Authority (the Authority), we offer readers of the Authority's financial statements, this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements.

The statement of net assets presents information on the Authority's assets and liabilities, with the difference between the two reported as net assets.

The statement of revenues, expenses and changes in net assets presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows presents information showing the Authority's cash inflows and outflows summarized by operating, noncapital financing, capital and related financing, and investing activities.

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Statement of Net Assets

<i>June 30,</i>	2004	2003
Other assets	\$ 673,197	\$ 616,627
Lease receivable, net	2,125,000	2,285,000
Capital assets, net	216,647,593	164,681,254
Total assets	219,445,790	167,582,881

City of Grand Rapids and County of Kent Joint Building Authority (A Joint Venture of the City of Grand Rapids, Michigan)

Management's Discussion and Analysis

<i>June 30,</i>	2004	2003
Accrued interest payable	\$ 6,285,865	\$ 3,690,285
Deferred revenue	4,523,478	3,958,409
Premium on bonds	2,154,581	1,959,485
Bonds payable	94,283,904	85,883,904
Total liabilities	107,247,828	95,492,083
Net assets		
Invested in capital assets, net of related debt	116,894,915	73,906,608
Unrestricted	(4,696,953)	(1,815,810)
Total Net Assets	\$ 112,197,962	\$ 72,090,798

The Authority's total net assets increased approximately \$40 million or 55.6%. This amount is due to contributed capital assets of \$38.2 million (construction in progress) conveyed to the Joint Building Authority by the Grand Rapids-Kent County Convention/Arena Authority (the C/AA). Upon retirement of the financing bonds, any assets held in support of the bonds will be conveyed back to the C/AA.

The Authority's total liabilities increased \$11.7 million or 12.3%. This amount included a \$10 million increase in bonds payable (less current principal payments) and an increase of \$ 2.5 million in accrued interest payable.

Next Year

The only ongoing project under construction as of June 30, 2004 was DeVos Place. Currently, no new projects are anticipated for the next fiscal year. It is anticipated that DeVos Place construction will be completed during fiscal 2005.

Requests for Information

This financial report is designed to provide a general overview of the City of Grand Rapids and County of Kent Joint Building Authority finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Grand Rapids Comptroller's Department, 300 Monroe NW, Grand Rapids, Michigan 49503.

**City of Grand Rapids and County of Kent
Joint Building Authority
(A Joint Venture of the City of
Grand Rapids, Michigan)**

Statement of Net Assets

<i>June 30, 2004</i>	Public Museum Parking Facility	DeVos Place	Total
Assets			
Current Assets			
Cash	\$ -	\$ (400)	\$ (400)
Other receivable	-	400	400
Current portion of leases receivable (Note 3)	170,000	-	170,000
Total current assets	170,000	-	170,000
Noncurrent Assets			
Lease receivable, net of current portion (Note 3)	1,955,000	-	1,955,000
Other assets	22,920	650,277	673,197
Capital assets (Note 4):			
Land	-	22,180,088	22,180,088
Construction in progress (estimated costs to complete of \$32,000,000)	-	179,805,383	179,805,383
Depreciable buildings, equipment and furniture, net	-	14,662,122	14,662,122
Total noncurrent assets	1,977,920	217,297,870	219,275,790
Total Assets	2,147,920	217,297,870	219,445,790
Liabilities			
Current Liabilities			
Accrued interest payable	-	196,395	196,395
Deferred revenue	-	4,523,478	4,523,478
Current portion of bonds payable (Note 5)	170,000	1,970,000	2,140,000
Total current liabilities	170,000	6,689,873	6,859,873
Noncurrent Liabilities			
Premium on bonds	-	2,154,581	2,154,581
Accrued interest payable (Note 5)	-	6,089,470	6,089,470
Bonds payable (Note 5)	1,955,000	90,188,904	92,143,904
Total noncurrent liabilities	1,955,000	98,432,955	100,387,955
Total Liabilities	2,125,000	105,122,828	107,247,828
Net Assets			
Invested in capital assets, net of related debt	-	116,894,915	116,894,915
Unrestricted	22,920	(4,719,873)	(4,696,953)
Total Net Assets	\$ 22,920	\$ 112,175,042	\$ 112,197,962

See accompanying notes to financial statements.

**City of Grand Rapids and County of Kent
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Statement of Revenues, Expenses and Changes in Net Assets

<i>Year ended June 30, 2004</i>	Public Museum Parking Facility	DeVos Place	Total
Operating Expense			
Depreciation	\$ -	\$ 793,724	\$ 793,724
Operating Loss	-	(793,724)	(793,724)
Nonoperating Revenues (Expenses)			
Interest on lease receivable	108,580	3,202,053	3,310,633
Interest revenue	-	31,675	31,675
Interest expense	(108,580)	(4,135,852)	(4,244,432)
Other expenses	(2,292)	-	(2,292)
Total nonoperating revenues (expenses)	(2,292)	(902,124)	(904,416)
Loss before capital contributions	(2,292)	(1,695,848)	(1,698,140)
Capital contributions	-	38,282,632	38,282,632
Change in net assets	(2,292)	36,586,784	36,584,492
Net Assets, beginning of year	25,212	75,588,258	75,613,470
Net Assets, end of year	\$ 22,920	\$ 112,175,042	\$ 112,197,962

See accompanying notes to financial statements.

**City of Grand Rapids and County of Kent
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Statement of Cash Flows

<i>Year ended June 30, 2004</i>	Public Museum Parking Facility	DeVos Place	Total
Cash Flows for Capital and Related			
Financing Activities			
Receipts from lessees	\$ 268,580	\$ 3,685,491	\$ 3,954,071
Proceeds from capital debt	-	10,193,227	10,193,227
Capital expenditures	-	(10,230,492)	(10,230,492)
Principal paid on capital debt	(160,000)	(1,440,000)	(1,600,000)
Interest paid on capital debt	(108,580)	(2,245,491)	(2,354,071)
Other payments	-	(400)	(400)
Cash flows for capital and related financing activities	-	(37,665)	(37,665)
Cash Flows From Investing Activity			
Interest received	-	37,265	37,265
Net decrease in cash and cash equivalents	-	(400)	(400)
Cash and Cash Equivalents, beginning of year	-	-	-
Cash and Cash Equivalents, end of year	\$ -	\$ (400)	\$ (400)
Reconciliation of Operating Income (Loss) to Net			
Cash from Operating Activities			
Operating income (loss)	\$ -	\$ (793,724)	\$ (793,724)
Adjustments to reconcile operating income (loss) to cash from operating activities:			
Depreciation expense	-	793,724	793,724
Net Cash From Operating Activities	\$ -	\$ -	\$ -
Noncash Capital Activities			
Contributions of capital assets from Grand Rapids-Kent County Convention/Arena Authority	\$ -	\$ 38,282,632	\$ 38,282,632

**City of Grand Rapids and County of Kent
Joint Building Authority
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Notes to Financial Statements

1. Reporting Entity

The City of Grand Rapids and County of Kent Joint Building Authority (the Authority), a joint venture of the City of Grand Rapids, Michigan (the City), was created by the City of Grand Rapids, Michigan and County of Kent, Michigan (the County) under the provisions of Act 31, Public Acts of Michigan, 1948, as amended. The purpose of the Authority is to acquire, construct, furnish, equip, operate and maintain buildings for any legitimate public purpose of the governmental units. The Authority is authorized by statute to issue bonds to finance its activities. The bond principal and interest are to be paid through lease payments made by the governmental units to the Authority.

2. Summary of Significant Accounting Policies

Measurement Focus and Financial Statement Presentation

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority reports the following major funds:

Public Museum Parking Facility – the Authority leases this facility and equipment to the City under a contract collateralized by the limited tax full faith and credit pledge of the City.

DeVos Place Convention Center – accounts for the improvement and construction of the convention/performing arts center/entertainment facility.

Budget

The budget for the Authority is a project budget rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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Notes to Financial Statements

Cash and Investments

The City maintains an investment pool for most City funds and component units. The Authority's portion of the investment pool is displayed on the balance sheet as equity in pooled cash and investments. Investments consist of certificates of deposits with original maturities of greater than three months at the date of purchase and commercial paper. Investments are carried at amortized costs. State statutes require that certificates of deposit be maintained in financial institutions with offices in the State of Michigan. Interest income earned as a result of cash and investment pooling is distributed to the appropriate funds.

Investment policies and categorization of cash and investments are included in the Comprehensive Annual Financial Report of the City of Grand Rapids to give an indication of the level of risk assumed by the City at year-end. It is not feasible to allocate the level of risk to the various component units of the City.

Capital Assets

Capital assets include land, buildings, equipment and furniture, and are valued at historical cost or estimated cost if actual historical cost is not available. Capital assets contributed by the Grand Rapids - Kent County Convention/Arena Authority were valued at fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Construction costs are capitalized when incurred. Interest on bonds during construction periods is capitalized net of any interest earned. Upon completion, the constructed assets will be leased to the County of Kent with a sublease to the Grand Rapids-Kent County Convention/Arena Authority.

3. Leases Receivable

The Authority leases facilities to the governmental units under contracts capitalized as direct financing leases. The lease payments are pledged solely for payment of the maturing bonds and interest. When the bonds issued by the Authority have been retired, title to the facilities will be conveyed to the City or the Grand Rapids-Kent County Convention/Arena Authority.

**City of Grand Rapids and County of Kent
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Notes to Financial Statements

At June 30, future minimum lease payments receivable under this direct financing lease is as follows:

Fiscal Year	Public Museum Parking Facility
2005	\$ 270,988
2006	267,879
2007	269,236
2008	269,875
2009	269,875
2010-2014	1,350,625
	2,698,478
Less: unearned interest	(573,478)
Net Lease Receivable	\$ 2,125,000

The Downtown Development Authority, has agreed to reimburse Kent County for half of the debt service on the DeVos Place series 2003 bonds. Following is schedule of the minimum lease payments receivable on this operating lease:

Fiscal Year	DeVos Place Series 2003 B
2005	\$ 367,087
2006	393,588
2007	389,788
2008	390,450
2009	390,012
2010-2014	1,937,838
2015-2019	1,918,638
2020-2024	1,868,406

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Notes to Financial Statements

4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 22,180,088	\$ -	\$ -	\$ 22,180,088
Construction in progress	127,045,320	52,760,063	-	179,805,383
Total capital assets not being depreciated	149,225,408	52,760,063	-	201,985,471
Capital assets being depreciated:				
Buildings	16,372,168	-	-	16,372,168
Equipment and furniture	363,297	-	-	363,297
Total capital assets being depreciated	16,735,465	-	-	16,735,465
Less accumulated depreciation for:				
Buildings	1,183,254	742,546	-	1,925,800
Equipment and furniture	96,365	51,178	-	147,543
Total accumulated depreciation	1,279,619	793,724	-	2,073,343
Total capital assets being depreciated, net	15,455,846	(793,724)	-	14,662,122
Total Capital Assets, net	\$ 164,681,254	\$ 51,966,339	\$ -	\$ 216,647,593

**City of Grand Rapids and County of Kent
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Notes to Financial Statements

5. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2004 are as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Bonds payable:					
DeVos Place	\$ 83,598,904	\$ 10,000,000	\$ 1,440,000	\$ 92,158,904	\$ 1,970,000
Public Museum					
Parking Facility	2,285,000	-	160,000	2,125,000	170,000
Accrued interest on capital appreciation bonds	3,522,672	2,566,798	-	6,089,470	-
Total	\$ 89,406,576	\$ 12,566,798	\$ 1,600,000	\$ 100,373,374	\$ 2,140,000

The following table summarizes the bonds outstanding:

	DeVos Place		
	Series 2001	Series 2003 A & B	Public Museum Parking Facility
Original issue	\$84,578,904	\$10,000,000	\$3,425,000
Outstanding balance	\$82,158,904	\$10,000,000	\$2,125,000
Interest rates	5.00% to 5.59%	1.20% to 4.77%	4.35% to 5.00%
Serial maturity on outstanding bonds	December 1, 2004-2031	December 1, 2004-2023	January 1, 2005- 2014
Call provision begins	December 1, 2003 and December 1, 2015	December 1, 2013	January 1, 2003
Source of lease payments used for redemption funds	County of Kent hotel/motel tax	County of Kent** hotel/motel tax	Tax Increment* Revenues

* Although this debt issue is an obligation of the City of Grand Rapids, the current debt service requirements are paid by the Downtown Development Authority from Tax Increment Revenues.

** Although the debt is the obligation of the County of Kent, one-half the debt service requirement will be reimbursed to the County per a reimbursement agreement with the Downtown Development Authority.

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Notes to Financial Statements

Call premiums vary and diminish toward maturity. Public Museum Parking Facility bonds constitute limited tax full faith and credit general obligations of the governmental units.

The \$84,578,904 bond issue for DeVos Place contains \$42,703,904 of capital appreciation bonds. These bonds, upon which no interest is paid, appreciate in value over time to \$142,715,000. The bonds mature annually from 2015 through 2031. Interest accrues semiannually in December and June, even though the interest is not paid until maturity.

As of February 15, 2004 all bond proceeds related to the \$84,578,904 bond issue and the \$10,000,000 bond issue for DeVos Place construction had been spent. However, construction continues with financing from other sources with an expected completion date sometime in 2005.

The annual requirements to pay principal and interest on outstanding bonds payable at June 30 are as follows:

Fiscal Year	DeVos Place		Public Museum Parking Facility		Total Principal Payments
	Principal	Interest	Principal	Interest	
2005	\$ 1,970,000	\$ 2,312,281	\$ 170,000	\$ 100,988	\$ 2,140,000
2006	2,700,000	2,223,431	175,000	92,879	2,875,000
2007	2,940,000	2,127,231	185,000	84,236	3,125,000
2008	3,215,000	1,999,931	195,000	74,875	3,410,000
2009	3,545,000	1,839,806	205,000	64,875	3,750,000
2010-2014	23,530,000	6,083,694	1,195,000	155,625	24,725,000
2015-2019	19,793,353	15,667,294	-	-	19,793,353
2020-2024	16,227,695	25,864,118	-	-	16,227,695
2025-2029	11,719,000	34,551,000	-	-	11,719,000
2030-2032	6,518,856	25,686,145	-	-	6,518,856
	<u>\$92,158,904</u>	<u>\$118,354,931</u>	<u>\$ 2,125,000</u>	<u>\$ 573,478</u>	<u>\$ 94,283,904</u>

Defeased Debt

In a prior year, the Authority defeased certain bonds by placing cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2004, \$3,805,000 of bonds outstanding is considered defeased.